

Examiner's report

F6 (RUS) Taxation

June 2016

General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had six questions, four of them worth 10 marks each and two longer questions worth 15 marks, each testing the various topics of corporate profits tax, social insurance contributions, value added tax (VAT), property tax and personal income tax in more depth. This is the third examiner's report since the introduction of the new exam format and question types. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

It should be pointed out that vast majority of candidates attempted all of the questions. Candidates preparing for the next examination of F6 (RUS) are advised to work through the specimen exam and sample questions discussed here and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 (RUS) syllabus, rather than attempting to question spot. The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Sample Questions

Example 1

OOO Sparta made a shipment of goods to OOO Willy with a value of 3,520,000 RR in May 2016. Under the sales agreement the payment deadline was 31 July 2016. However, OOO Sparta sold the receivable to OOO Rubic for 2,464,000 RR on 7 June 2016.

What is the amount of OOO Sparta's deductible loss for corporate profits tax in 2016, ignoring value added tax (VAT) and the transfer pricing rules?

- A 130,192 RR
- B 0 RR (the loss is non-deductible)
- C 104,153 RR
- D 1,056,000 RR

This question reviewed candidates' ability to understand the practical consequences of the debt receivable sale with the loss. The correct answer is A. However, a very significant number of candidates wrongly chose either answer B or D.

In order to arrive at this correct answer, candidates had to be very attentive to the scenario given. They should have firstly identified that the sale of debt receivable occurred before the relevant payment deadline and calculated the number of days before the deadline. Secondly, taking into

account the given CBR key rate and max threshold for interest deductibility limitation, they should have adjusted the amount of receivable for this interest and choose the correct answer in the following way:

$$(3,520,000 \times 20\% \times 125\%) \times (30 - 7 + 31) / 365$$

Answer B treated the whole loss as a non-deductible one.

Answer C does not take into account interest threshold limitation:

$$(3,520,000 \times 20\%) \times (30 - 7 + 31) / 365 = 104,153$$

Answer D treated the whole loss without taking into account CBR key rate and relevant threshold:
 $(2,464,000 - 3,520,000) = 1,056,000$

Example 2

AO Creative has the following assets as of 30 June 2016:

	Acquisition date	Initial value including value added tax (VAT) RR	Useful life in years
J	1 August 2014	75,000	2
K	1 June 2015	95,000	3
L	1 February 2016	120,000	4
M	15 March 2016	106,000	3

For the years 2014 to 2016, the tax policy of AO Creative was not to apply any one-off write off for fixed assets acquisitions.

What is the total linear depreciation in respect of all four assets for profits tax purposes for the six-month period to 30 June 2016?

- A** 91,667 RR
- B** 108,167 RR
- C** 37,782 RR
- D** 44,583 RR

This question tested candidates' ability to calculate linear depreciation for each relevant fixed asset, based on the scenario data and it seemed to be quite a straight-forward question.

The correct answer is C. However, the majority of candidates opted for answer D which indicated a lack of technical knowledge. The logic of the correct answer, as well as incorrect ones, is explained below.

Answer C treated only 3 assets as fixed ones based on valuation criterion provided, firstly netted their initial value from VAT and then calculated linear depreciation based on useful life in years:

$$(75,000 \times 100/118/24 \times 6 + 95,000 \times 100/118/36 \times 6 + 120,000 \times 100/118/48 \times 4) = 37,782$$

Answer A treated all four assets as fixed ones irrespective of the fixed asset valuation criterion of 100,000 RR given in the rates and allowance sheet.

$$(75,000 \times 100/118/24 \times 8 + 95,000 \times 100/118/36 \times 12 + 120,000 \times 100/118/48 \times 10 + 106,000 \times 100/118/36 \times 9) = 91,667$$

Answer B treated all four assets as fixed ones and at the same time did not take into account the net of VAT value for the depreciation calculation .

$$(75,000/24 \times 8 + 95,000/36 \times 12 + 120,000/48 \times 10 + 106,000/36 \times 9) = 108,167$$

Answer D calculated depreciation for each of 4 fixed assets at the first stage irrespective from valuation criterion and net of VAT the total amount at the final stage.

$$(75,000/24 \times 6 + 95,000/36 \times 6 + 120,000/48 \times 4 + 106,000/36 \times 3) \times 100/118 = 44,583$$

Section B

Question One

This 10-mark question covered the subject of deductible interest expense based on different options provided in the scenario, application of thin capitalisation rules, calculation of deemed dividend and withholding tax on dividend respectively.

Candidates' performance was satisfactory on this question. Many candidates were able to correctly identify the options with 100% deductible interest as well as the option with the interest deductible limited due to thin capitalization rules application. In the latter case interest to be reclassified in the dividend and withholding tax on the dividend were also calculated in a correct manner.

The only typical mistake made was lack of accrued interest in the formula for capitalisation ratio.

Question Two

This 10 mark question tested candidates' knowledge of social insurance contributions (SIC) applicable to different types of agreements and was split into two parts: part a) and part b). Performance on this question was satisfactory. The typical mistakes encountered in part (a) were as follows;

- Not including semi-annual voluntary personal insurance into taxable base
- Including annual voluntary medical insurance for his wife into taxable base
- Incorrect SIC rates application for labour agreement

- Four months exemption for the termination compensation

Part (b) was answered in good manner. The most common mistake in part (b) was deducting expenses from the speaker's fee.

Question Three

This 10-mark question dealt with the personal income tax issues and composed of part (a) and part (b) respectively.

Part (ai) for 3 marks required a calculation of housing allowance split between husband and wife in a particular situation. This subpart was answered in poorly by the majority of candidates and the following mistakes were commonly encountered;

- Reimbursed portion from employer was not taken into account for the value subject to housing allowance
- Housing allowance for Malvina to be carried forward was not provided in the answers

Part (aii) has been answered satisfactorily by well-prepared candidates, but many candidates skipped this subpart.

Part (bi) required the calculation of the personal income tax liability for the individual entrepreneur.

This subpart was answered in a good manner with the main typical mistake-being lack of a detailed social insurance contributions calculation on trainers' salaries.

Part (bii) has been answered well by those candidates who attempted this subpart. The only minor issue was lack of explanation in case of non-application of own SIC deduction.

Question Four

This 10-mark question covered the topic of value added tax (VAT) in different scenarios provided in part (a) and part (b) respectively.

Part (a) of this question required a calculation of both output and input VAT for the confirmed export in subpart (i) in Q3 2016 and the non-confirmed export in subpart (ii) related to Q1 2016.

This subpart has only been answered satisfactorily by well-prepared candidates. In many cases the subparts were either ignored or very limited details provided, especially subpart (ii) of 4 (a).

The typical mistakes encountered included the following;

- Incorrect exchange rate for output VAT in subpart (i)
- Both incorrect exchange rate and VAT rate for the output VAT in adjusted Q1 for subpart (ii)
- No claw-back of output VAT in Q3 in subpart (ii)

Part (b) of this question required a calculation of VAT on sale of the fixed asset in two different options.

Subpart (i) was often omitted by candidates and those candidates who did attempt an answer often failed to provide a satisfactory and relevant answer. This appeared to be due to a lack of the necessary technical knowledge in terms of the correct approach to apply and a failure to read the scenario and questions with sufficient attention to detail.

Subpart (ii) of this question was answered in a better manner with the only minor issue being a lack of explanation regarding no claw-back of VAT recovered in the past.

Question Five

This 15-mark question tested the areas of taxable and deductible items for personal income tax, including application of different deductions and items subject to different personal income tax rates. This question was answered well by candidates in majority cases with the exclusions for parts (c) and (d) respectively. The most common mistakes encountered were as follows;

In part (a) the application of gifts deduction to pilates courses and calculating the imputed interest income without considering the relevant CBR rate.

In part (b) not including educational deduction for her daughter for the final settlement.

Part (c) the narrative question has been skipped by majority of candidates. In respect to those who attempted this part, there appeared to be many answers with the general provisions for types of social deduction, including deduction for the father and educational ones for the children. However the question was targeted on the option of receiving social deduction at source and the relevant documents to be provided. The disappointing response was probably due to a lack of technical knowledge for this subpart.

Part (d) required the knowledge in terms of differentiation for personal income tax in the case of the sale of an apartment acquired from a 3rd party or inherited from a relative. This part has been attempted by a limited number of candidates due to a lack of knowledge for this subject. Those candidates who tried to attempt this quite often provided general tax law provisions without answering the question asked.

Question Six

This 15-mark question tested candidates' ability to cope with the various core aspects of corporate profits tax, including the different aspects for a company engaged in manufacturing, taking into account the work in progress adjustment for direct expenses such as direct materials, salaries and non-linear depreciation, as well as limited expenses in terms of deductibility for profits tax purposes.

Overall, candidates' performance was satisfactory for the whole question. However performance could have been improved if candidates were more attentive to the details in the scenario and did not make the following mistakes;

- Including prepayments into the taxable base for corporate profits tax

- Calculating direct materials without adjustment for net of VAT
- Applying the incorrect number of months when calculating non-linear depreciation on the relevant formula
- NBV of fixed assets were calculated with the VAT included
- Calculating social insurance contributions notwithstanding the note to the question (note 2) instructing candidates to ignore these
- Including advertising expenses for both exhibitions and internet into taxable base with the VAT included
- Ignoring requirements in the question regarding showing non-deductible expenses in the answers